1999 Country Reports on Economic Policy and Trade Practices
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NETHERLANDS

Key Economic Indicators 1/

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 2/
Income, Production and Employment:			
Nominal GDP 3/	337.6	349.7	347.1
Real GDP Growth (pct) 4/	3.8	3.0	2.75
GDP by Sector:			
Agriculture	11.8	11.0	11.0
Manufacturing	59.9	60.9	60.5
Services	199.8	211.5	209.9
Government	40.5	41.6	41.2
Per Capita GDP (US$)	21,781	22,417	22,108
Labor Force (000s)	7,105	7,206	7,311
Unemployment Rate (percent)	6.2	4.8	4.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.2	9.9	9.0
Consumer Price Inflation	2.2	2.0	2.0
Exchange Rate (guilders/US$ annual average)			
Official	1.95	1.98	2.05
Balance of Payments and Trade:			
Total Exports FOB 5/	166.0	197.6	196.7
Exports to U.S. 6/	7.3	7.6	8.0
Total Imports CIF 5/	151.8	184.0	185.6
Imports from U.S. 6/	19.8	19.0	20.0
Trade Balance 5/	14.2	13.6	11.1
Balance with U.S. 6/	-12.5	-12.4	-12.0
Current Account Surplus/GDP (pct)	7.0	6.0	5.25
External Public Debt 6/	0	0	0
Debt Service Payments/GDP (pct) 7/	6.7	9.4	12.3
Fiscal Deficit/GDP (pct)	-1.2	-0.8	-0.6
Gold and Foreign Exchange Reserves	31.6	26.7	29.9
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ All figures have been converted at the average guilder exchange rate for each year.
2/ 1999 figures are official forecasts or estimates based on available monthly data in October.
3/ GDP at factor costs.
4/ Percentage changes calculated in local currency.
5/ Merchandise trade. Government of the Netherlands data.
6/ Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through October 1999.
7/ All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

1. General Policy Framework

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a unique position as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government has successfully reduced its role in the economy during the 1990s, and structural and regulatory reforms have been an integral part of a major reorientation of Dutch economic policy since the early 1980s. Although telecommunication services have been fully liberalized since January 1 1998, deregulation and privatization of the Dutch electricity and gas market will have to wait until 2003. The government continues to dominate the energy sector, and will play an important role in public transport and aviation for some time.

Dutch economic policy is geared chiefly towards environmentally sustainable economic growth and development by way of economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is guided by a national environmental action plan.

General elections in May of 1998 resulted in a clear vote of confidence for the ruling three-party coalition, which returned to office for another four-year term. Policy intentions of the new coalition government are articulated in the 1998 coalition accord, with reductions in the tax burden and the fiscal deficit, as well as further labor and product market reforms as chief priorities. The government coalition accord is based on a "conservative" 2.25 percent average annual GDP growth scenario between 1999 and 2002. Average GDP growth so far has been well in excess of 3 percent.

Only mildly affected by the crisis in emerging markets and subsequent slowdown in the euro area, the Dutch economy remains strong, combining sustained GDP growth with falling unemployment and moderate inflation. The success of the Dutch economy can be attributed to a combination of a rigorous and stable macro-economic policy with wide-ranging structural and regulatory reforms. After a period of exceptional strong (near 4 percent) growth in 1998, the OECD expects real GDP growth in the Netherlands to weaken to 3 percent in 1999 and just below 3 percent in 2000. The European Union seems more optimistic and projects economic growth in 1999 and 2000 to exceed 3 percent. Expectations are that private consumption may loose some of its buoyancy and investment will remain sluggish. The deceleration in domestic demand is likely to be offset to some extent by a stronger foreign balance as export market growth picks up. The unemployment rate is forecast to fall to around 3.25 percent in 1999 and in 2000, a level last seen in the early 1970s. Reflecting continuing pressure on resource utilization, inflationary pressure remains. Consumer price inflation in 1999 and 2000 is forecast to edge up to exceed 2 percent. The OECD sees risks and uncertainties mainly concern domestic developments. Wide-ranging structural and regulatory reforms make it difficult to assess the degree of tightness of the labor market and of the pressure on resource utilization.

The Netherlands was one of the first EU member states to qualify for Economic and Monetary Union (EMU). Fiscal policy aims to strike a balance between further reducing public spending, and lowering taxes, and social security contributions. The fiscal deficit is expected to narrow to narrow to 0.6 percent of GDP in 1999. This is well below the three percent of GDP criterion in the EMU's Growth and Stability Pact. A balanced budget is well within reach in 2000. The stock of public debt will fall from a high of 69.9 percent in 1997 to 64.3 percent in 1999. Both fiscal deficit and public debt are forecast to converge below or closer to EMU deficit and debt criteria.

Government bonds largely fund the deficit. Since January 1, 1994 Dutch Treasury Certificates (DTC) have also covered financing. DTCs replace a standing credit facility for short-term deficit financing with the central bank which, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Since the European Central Bank (ECB) assumed monetary responsibility on January 1, 1999, monetary conditions are no longer under the exclusive control of the Dutch authorities but are determined by the Eurosystem (the European Central Bank and the 11 national Central Banks in the euro area), and are attuned to the euro area as a whole. Conversion of the currencies of the euro area on December 31 1998, fixed the exchange rate of the euro vis-à-vis the guilder at 2.20371 guilders to the euro. There are no multiple exchange rate mechanisms.

3. Structural Policies

Tax Policies: Partly with an eye to further EU integration, the Dutch recently took the first step towards a fundamental reform of the tax system. The new tax regime for the 21st century entails a shift from direct to indirect taxes, a broadening of the tax base and a reduction of the tax rate on labor. When implemented in 2001, wage and individual income taxes will be lowered, while excise duties, "green" taxes and VAT rates will be raised. The highest marginal tax rate on wage and salary income will be reduced from 60 percent to 50 percent, while the top VAT rate will rise from 17.5 percent to 19 percent. The Dutch corporate income tax rate is among the lowest in the European Union. Effective January 1, 1998 the standard corporate tax rate paid by corporations (including foreign-owned corporations) has been reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997 the Dutch have been offering multinationals a more friendly tax regime on their group finance activities, effectively reducing tax on internal banking activities from 35 percent (the standard corporate tax rate) to 7 percent.

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country.

Measures blend tax incentives and subsidies and are available to foreign and domestic firms alike. There are also subsidies to stimulate R&D and to encourage development and use of new technology by small and medium sized firms.

Complying with EU competition legislation, new Dutch competition legislation became effective on January 1, 1998. The new Competition Law includes a provision for the supervision of company mergers by the Netherlands Competition Authority (NMA). The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of well over five percent of GDP and no external debt, the Netherlands is a major creditor nation. The Dutch have run a surplus on current account since the early 1980s. During that period, gross public sector debt (EMU criterion) grew sharply, to 81.2 percent of GDP by 1993. Since the late 1980s, the Dutch fiscal balance has drastically improved. Most observers now predict a significant decline of the debt to GDP ratio towards the EMU 60 percent criterion over the next three years. Debt servicing and rollover has fallen to slightly over nine percent of GDP, with interest payments alone at four percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP equal to $4.8 billion in 1999. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.4 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy, nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the International Convention for the Settlement of Investment Disputes. There are no significant Dutch barriers to U.S. exports, and U.S. firms register relatively few trade complaints. The few trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters:

Agricultural Trade Barriers: These result from the Common Agricultural Policy (CAP) and common external tariffs, which severely limit imports of U.S. agricultural products, e.g., canned fruits (high tariffs), frozen whole turkeys and parts (high tariffs). Bilateral import barriers, although usually connected with EU-wide regulations, do arise in customs duties, grading, inspection and quarantine, e.g., fresh beef (hormones) and poultry (phytosanitary),. EU rules and procedures sometimes hinder commodity and product entry. Although only a few cases have been reported to date, an increasing pattern of delayed or rejected shipments of agricultural commodities, food and beverages appears to have developed. Current EU-wide regulations, and the lack of timely approval processes for agricultural products, including Genetically Modified Organisms (GMOs), hinder U.S. exports. Some of these rejections or delays in clearance cause major financial and logistical problems to Dutch importers and U.S. exporters for particular products, thus dampening trade prospects and flows.

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration. The United States has discussed this issue with the government of the Netherlands.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive, but this has not in any way impeded the transmission of non-European programs. U.S. television shows and films are popular and readily available. Commercial broadcasters may apply for temporary exemptions of the quota requirement on an ad hoc basis.

Cartels: Although the export sector of the Dutch economy is open and free, cartels have long been a component of the domestic sector of the economy. A new Cartel Law which took effect in 1996 bans cartels unless its proponents can conclusively demonstrate a public interest. Since 1998, the United States received no complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands.

Public Procurement: Dutch public procurement practices comply with the requirements of the GATT/WTO Agreement on Public Procurement and with EU public procurement legislation. The Netherlands has fully implemented the EU's Supplies Directive 93/36/EEC, Works Directive 93/37/EEC, and the Utilities Directive 93/38/EEC. Implementation of EU and GATT public procurement obligations have contributed to greater transparency of the Dutch public procurement environment at the central and local government levels. Independent studies show that transparency and enforcement in this area can be deficient, especially at the local level, and procurement may be contingent on offset or local content requirements. As part of its plan to encourage electronic transactions, the government has declared its intention to begin posting all national and local government procurement tenders on websites in the near future. The EU Utilities Directive may force more public notification and end the effective duopoly in Dutch power generation and distribution, and the monopoly in production and distribution of natural gas.

6. Export Subsidies Policies

Under the Export Matching Facility, the government provides interest subsidies for

Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. The government provides up to 10 million guilders (about $5.5 million) of interest subsidies per export contract, up to a maximum of 35 percent per export transaction. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company.

The Dutch provide some subsidies for shipping. In conformity with the OECD understanding on subsidies, the government grants interest rate subsidies (maximum two percent) to Dutch shipbuilders up to 80 percent of a vessel's cost with a maximum repayment period of 8.5 Years. This subsidy is only available when "matched" by similar offers by non-EU shipyards. Despite termination of the EU shipbuilding subsidies regime in 1996, the shipbuilding subsidies budget earmarked 70 million guilders ($35 million) annually in 1999 and 2000. As long as the 1994 OECD agreement to phase out shipbuilding subsidies internationally has not been ratified by all parties, the Dutch will continue to support their shipbuilding industry adhering to EU shipbuilding regulations.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR protection. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on Industrial Property and the Berne Copyright Convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used.

The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters. The limited scope of resources devoted to enforcement of anti-piracy laws is of concern to U.S. producers of software, audio and video tapes, and textbooks. Legislation was enacted in early 1994 to explicitly include computer software as intellectual property under the copyright statutes, and the government is working with industry on enforcement.

8. Worker Rights

a. The Right of Association: The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three-quarters of the workforce. Membership in labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 1998, some 33 labor days per 1000 workers were lost due to industrial disputes compared with 15 days in 1997.

b. The Right to Organize and Bargain Collectively: The right to organize and bargain collectively is recognized and well established. There are no union shop requirements. Discrimination against workers because of union membership is illegal and does not exist. Dutch society has developed a social partnership among the government, employers' organizations, and trade unions. This tripartite "Social Partnership" involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such generally binding agreements (AVVs) cover most Dutch workers.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor, including that by children, is prohibited by the Constitution and does not exist.

d. Minimum Age for Employment of Children: Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development.

e. Acceptable Conditions of Work: Dutch law and practice adequately protect the safety and health of workers. Although a forty hours workweek is established by law, the average workweek for adults working full time currently stands at 37.5 hours. The high level of part-time work has lowered the estimated actual workweek to 35.8 hours. Collective bargaining negotiations are heading towards an eventual 36 hours workweek for full-time employees. The gross minimum wage in mid-1999 amounted to about 2,376 guilders (US$ 1,188) per month. The legally mandated minimum wage is subject to semiannual cost of living adjustment. Working conditions are set by law, and regulations are actively monitored.

f. Rights in Sectors with U.S. Investments: The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		2,826
Total Manufacturing		16,242
Food & Kindred Products	1,078	
Chemicals & Allied Products	10,212	
Primary & Fabricated Metals	224	
Industrial Machinery and Equipment	993	
Electric & Electronic Equipment	1,860	
Transportation Equipment	348	
Other Manufacturing	1,526	
Wholesale Trade		9,446
Banking		(1)
Finance/Insurance/Real Estate		42,836
Services		6,985
Other Industries		(1)
TOTAL ALL INDUSTRIES		79,386

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.